BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 90-11-G - ORDER NO. 90-626

JUNE 15, 1990

IN RE: Annual Review of the Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas Company	)))	ORDER

On April 6, 1988, the Public Service Commission of South Carolina (the Commission) issued its Order No. 88-294 which requires the annual review of the Purchased Gas Adjustment (PGA) and Gas Purchasing Policies of Piedmont Natural Gas Company (Piedmont). Pursuant to that Order and in order for testimony and evidence to be received from all interested parties, the Commission scheduled a public hearing for 11:00 a.m., May 16, 1990, in the Commission's Hearing Room, 111 Doctors Circle, Columbia, South Carolina.

Testimony was presented for Piedmont by Ware F. Schiefer and Ann H. Boggs and for the Commission Staff by Brent L. Sires and Jacqueline R. Cherry. The South Carolina Department of Consumer Affairs intervened in the hearing.

Based on the record before it, the Commission makes the following findings and conclusions:

1. Piedmont witness Schiefer testified that Piedmont is engaged in the natural gas distribution business in the States of

South Carolina, North Carolina and Tennessee. It is a public utility under the laws of South Carolina, and its public utility operations in South Carolina are subject to the jurisdiction of this Commission. Piedmont testified that it has adopted a "best cost" gas purchasing policy. Under this "best cost" purchasing policy, Piedmont considers five main components--the price of gas, the security of the gas supply, the flexibility of the gas supply, gas deliverability and supplier relations. During the period under review in these proceedings, Piedmont testified that it took the following steps to keep its gas costs as low as possible, consistent with its "best cost" policy:

(a) Piedmont actively participated in all FERC matters and other governmental agencies where action by those agencies could affect Piedmont's rates and services to its customers.

(b) On November 1, 1989, Piedmont converted an additional 40,000 dts per day of its sales contract with Transco to firm transportation, and on April 1, 1990, converted an additional 20,000 dts per day. These conversions bring Piedmont's total firm transportation conversions to over 58% of its contract with Transco.

(c) Piedmont worked with its industrial customers to transport customer owned gas. Transportation services permit Piedmont to compete with alternate fuels without having to negotiate its regular rate schedules.

(d) Piedmont lowered its gas costs by purchasing spot gas in the summer when spot prices are lower and storing the gas in storage which Piedmont owns or has under contract. Staff witness Sires testified that Piedmont has been active in purchasing on the spot market but also has obtained sufficient supplies to meet its firm requirements.

(e) Piedmont nominated 53,000 dts per day of winter FT service under Transco's Southern Expansion project in order to meet its peak firm demands. This service offers the best-priced peaking service and will enable Piedmont to delay construction of more expensive facilities to provide peaking.

(f) Piedmont signed a 20 year contract, to become effective November 1, 1990, with Columbia Gas Transmission Corporation (Columbia), and terminated its DS-1 contract with South Carolina Pipeline Corporation (SCPL). The volumes of gas lost due to the termination of SCPL's contract (25,000 dts/day) will be replaced by the first 25,000 dts/day of gas purchased from Columbia. This action is expected to reduce Piedmont's annual demand charges by approximately $750,000. This action is also expected to provide Piedmont with a more efficient winter service and a more secure supply of gas.

(g) Piedmont utilized a sophisticated computer-based support and optimization tool to assist it in forecasting gas supply requirements.

(h) Piedmont established an internal committee to oversee major gas supply decisions. The committee consists of senior officers and managers representing finance, corporate planning, marketing, regulatory relations and legal. The committee meets regularly to review performance, evaluate plans and discuss issues of significance.

Based on the evidence set forth above, the Commission finds that Piedmont attempts to get the best terms available in its negotiations with suppliers and in proceedings with FERC and is meeting its obligation to maintain adequate supplies at just and reasonable costs to serve its customers. Therefore, the Commission concludes that Piedmont's gas purchasing policies and procedures are prudent under existing conditions.

2. Piedmont testified that this Commission has previously approved procedures to be used by Piedmont to record its wholesale cost of gas and to recover its gas costs from it customers. In addition, in Order NO. 88-294, the Commission ordered Piedmont to maintain an account reflecting its gas costs each month, the amount of gas cost recovered each month, and the amounts deferred from month to month. Piedmont was further ordered to file with the Commission a report on a monthly basis showing the status of this account. Piedmont maintains the account as required by that order and files a report with the Commission each month as required.

The Commission Staff testified that the March 31, 1990, deferred account balance of $7,223,931 represents the amount to be distributed at some future date and is in compliance with Piedmont's PGA tariff provisions as approved by the Commission in Order No. 88-294.

Piedmont testified that the balance in Account No. 253 is currently being returned to Piedmont's customers through a decrement in Piedmont's rates.

Based on the evidence set forth above, the Commission finds that Piedmont has accounted for its gas costs in compliance with past Commission orders and that the proper balance in Account No. 253 at March 31, 1990, is $7,223,931.

3. Piedmont testified that in Order No. 86-1145, the Commission approved the payment of commissions by Piedmont to PNG Energy Company, a wholly-owned subsidiary of Piedmont for gas purchased by PNG Energy Company on behalf of Piedmont. By letter dated April 1, 1990, Piedmont stated that it would no longer pay commissions to PNG Energy Company for Piedmont's South Carolina system supply but would continue to reimburse PNG Energy Company for its expenses incurred in connection with the purchase of gas for Piedmont. The Commission finds, based on that testimony, that this change in procedures will result in lower rates for Piedmont's customers while at the same time permit PNG Energy Company to recover the costs which it incurs on behalf of Piedmont's South Carolina system supply purchases. Based on that finding, the Commission concludes that these revised procedures are fair and reasonable.

IT IS THEREFORE ORDERED:

1. That the gas purchasing practices of Piedmont Natural Gas Company be, and they hereby are, found to be prudent and reasonable.

2. That Piedmont has accounted for its gas costs in compliance with past Commission orders and that the proper balance

in Account No. 253 at March 31, 1990, is $7,223,931.

3. That Piedmont is to continue to file monthly reports with the Commission to assist Staff in maintaining surveillance of the deferred account and reporting to the Commission.

4. That Piedmont is authorized to reimburse PNG Energy Company for actual expenses incurred by PNG Energy Company on behalf of Piedmont, for South Carolina system supply purchases.

5. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Caroline H. Reeves

Chairman

ATTEST:

Charles W. Ballentine

Executive Director

(SEAL)